



## Is a Recession Going to Obliterate Your TFSA?

### Description

There are an awful lot of investors who think North America is on the brink of a recession.

It's easy to see why this opinion is so prevalent. The yield curve recently inverted, which has generally been an accurate recession indicator. The current bull market has been going for a decade without interruption, meaning we're due for a major pullback. And it seems like U.S. president Donald Trump's hard stance on trade with China could have a major impact on the economy.

But at the same time, I'm not convinced. I'm naturally a bit of a contrarian — the kind of person who likes to zig when everyone else is zagging. When I see something so universally believed, I start to doubt the conclusion.

There's plenty of decent value in the Canadian stock market today. The largest Canadian banks trade at under 10 times 2020 expected earnings. [I just bought a stock for my TFSA](#) that trades under eight times earnings with solid long-term growth prospects. The TSX Composite Index has a P/E ratio of 16.6, which isn't bad when compared to interest rates.

While I'm personally not making any moves in my own portfolio to prepare for an upcoming recession, I can understand why some investors would rather be safe than sorry. People who are close to retirement can't afford to lose 20% of their portfolio.

With that in mind, here are a couple of moves you can make today to protect your portfolio without giving up all of your upside.

### Check beta

Beta is a measure of how volatile a stock is compared to the underlying index. A stock with a beta of 0.5 is half as risky as the index itself, while a stock with a beta of two is twice as volatile.

For the most part, beta works well. But I should caution investors that it's a backwards-looking number. There are plenty of stocks in the history books that had low betas right until they blew up. And

remember, picking the lowest-beta stocks means you'll give up some upside.

Let's use **Telus** ([TSX:T](#))([NYSE:TU](#)) as an example. It's easy to see why you'd want to own Telus during a recession. It generates the bulk of its cash flow from wireless service — something it provides to more than nine million Canadians. Good luck trying to go without a wireless phone in 2019.

Telus also has millions of internet, television, and home phone customers, although the home phone is losing customers steadily. Put the four divisions together, and Telus delivers plenty of safe, predictable cash flows. It's a perfect stock to own if you're feeling a little nervous about the market. Oh, and it pays a succulent 4.6% yield.

Telus has a beta of 0.52, meaning it'll be safe. If the TSX Composite has a 20% correction, Telus's decline should only be in the 10% range.

## Replace your riskiest stocks

Selling all your stocks is a poor choice, even if you think a recession is imminent. You'll miss out on upside if you're wrong.

The better plan is to punt one or two risky stocks from your portfolio and replace them with something safer.

Take **Shopify** as an example. While I'm still a [huge long-term bull](#), it's easy to be worried about a stock that has increased by 150% in 2019 alone. We've seen it countless times before; what goes up in a hurry often falls even faster.

An investor sitting on huge Shopify gains could sell their shares and put them into something more conservative, like bonds. This would still mean they'd have significant exposure to the market itself, they'd just rid themselves of the most dangerous part of that exposure.

## The bottom line

Planning for a recession is incredibly difficult. You have to get the prediction right and then the timing. And since this recession is so predicted, there's the chance if it does happen, it won't be such a big deal.

In other words, investing is hard.

The correct strategy, at least for this writer's portfolio, is a relatively safe collection of companies that offers steady dividends, some long-term growth potential, and predictable business models. If your portfolio looks like that, I'm confident your TFSA will survive even a nasty recession relatively unscathed.

### CATEGORY

1. Dividend Stocks
2. Investing
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nelsonpsmith

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